SURFACE TRANSPORTATION BOARD

Decision

STB Ex Parte No. 290 (Sub-No. 5) (2003-3)

QUARTERLY RAIL COST ADJUSTMENT FACTOR

Decided: June 11, 2003

In Railroad Cost Recovery Procedures, 1 I.C.C.2d 207 (1984), the Interstate Commerce Commission (ICC) outlined the procedures for calculating the all-inclusive index of railroad input prices and the method for computing the rail cost adjustment factor (RCAF). Under the procedures, the Association of American Railroads (AAR) is required to calculate the index on a quarterly basis and submit it on the fifth day of the last month of each calendar quarter. In Railroad Cost Recovery Procedures, 5 I.C.C.2d 434 (1989), aff'd sub nom. Edison Electric Institute, et al. v. ICC, 969 F.2d 1221 (D.C. Cir. 1992), the ICC adopted procedures that require the adjustment of the quarterly index for a measure of productivity.

The provisions of 49 U.S.C. 10708 direct the Surface Transportation Board (Board) to continue to publish both an unadjusted RCAF and a productivity-adjusted RCAF. In Productivity Adjustment-Implementation, Ex Parte No. 290 (Sub-No. 7) (STB served Oct. 3, 1996), the Board decided to publish a second productivity-adjusted RCAF called the RCAF-5. Consequently, three indices are now filed with the Board: the RCAF (Unadjusted), the RCAF (Adjusted), and the RCAF-5. The RCAF (Adjusted), which reflects national average productivity changes as originally developed and applied by the ICC, is currently based on a 5-year moving average. The RCAF-5 reflects national average productivity changes as if a 5-year moving average had been applied consistently from the productivity adjustment's inception in 1989.

The index of railroad input prices, RCAF (Unadjusted), RCAF (Adjusted), and RCAF-5 for the third quarter 2003 are shown in Table A of the Appendix to this decision. Table B shows the first quarter 2003 index and the RCAF calculated on both an actual and a forecasted basis. The difference between the actual calculation and the forecasted calculation is the forecast error adjustment.

Both the RCAF (Adjusted) and the RCAF-5 are currently calculated using a moving 5-year average of productivity change for U.S. Class I railroads. An average productivity change rate of 1.019 (1.9% per year) for the period 1997-2001 is currently used for the RCAF (Adjusted). In accordance with Ex Parte No. 290 (Sub-No. 7), supra, the RCAF-5 will continue to use the 1996-2000 average productivity change rate of 1.042 (4.2%) until January 1, 2004.

We have examined AAR's calculations for compliance with our procedures and find that the third quarter 2003 RCAF (Unadjusted) is 1.020, no change from the second quarter 2003 RCAF of 1.020. The RCAF (Adjusted) is 0.519, a decrease of .6% from the second quarter 2003 RCAF (Adjusted) of 0.522. The RCAF-5 is 0.497, a decrease of 1% from the second quarter 2003 RCAF-5 of 0.502

This decision will not significantly affect the quality of the human environment or the conservation of energy resources.

Pursuant to 5 U.S.C. 605(b), we conclude that our action will not have a significant economic impact on a substantial number of small entities within the meaning of the Regulatory Flexibility Act.

AUTHORITY: 49 U.S.C. 10708.

It is ordered:

1. The Board has approved the third quarter 2003 Rail Cost Adjustment Factor (Unadjusted) of 1.020; RCAF (Adjusted) of 0.519; and RCAF-5 of 0.497.

2. Notice of this decision will be published in the Federal Register.

3. The effective date of this decision is July 1, 2003.

By the Board, Chairman Nober.

Vernon A. Williams
Secretary

APPENDIX

TABLE A
Ex Parte No. 290 (Sub-No. 5) (2003-3)
All Inclusive Index of Railroad Input Costs

LINE NO.	INDEX COMPONENT	2001 WEIGHTS	SECOND QUARTER 2003 FORECAST	THIRD QUARTER 2003 FORECAST
1	LABOR	37.8%	270.4	273.5
2	FUEL	10.5%	130.4	106.3
3	MATERIALS AND SUPPLIES	4.6%	152.6	152.7
4	EQUIPMENT RENTS	10.5%	175.9	175.8
5	DEPRECIATION	10.6%	149.1	149.9
6	INTEREST	3.8%	98.6	98.6
7	OTHER ITEMS[1]	22.2%	162.1	163.2
8	WEIGHTED AVERAGE	100.0%	196.9	195.9
9	LINKED INDEX[2]		194.3	193.3
10	PRELIMINARY RAIL COST ADJUSTMENT FACTOR [3]		1.011	1.006
11	FORECAST ERROR ADJUSTMENT[4]		0.009	0.014
12	RCAF (UNADJUSTED) (LINE 10 + LINE 11)		1.020	1.020
13	RCAF (ADJUSTED)[5]		0.522	0.519
14	RCAF-5[6]		0.502	0.497

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[1] "Other Items" is a combination of Purchased Services, Casualties and Insurance, General and Administrative, Other Taxes, Loss and Damage, and Special Charges, price changes for all of which are measured by the Producer Price Index for Industrial Commodities Less Fuel and Related Products and Power.

[2] Linking is necessitated by a change to the 2001 weights beginning with the fourth quarter 2002. The following formula was used for the current quarter's index:

$$\frac{\text{3nd Qr. 2003 Index (2001 Weights)}}{\text{2}^{ND}\text{ Qr. 2003 Index (2001 Weights)}} \quad \text{Times} \quad \text{2}^{ND}\text{ Quarter Linked Index (1980 = 100 Linked)} \quad \text{Equals} \quad \text{Linked Index (Current Quarter)}$$

Or

$$\frac{195.9}{196.9} \quad \text{X} \quad 194.3 = 193.3$$

[3] The first quarter 1998 RCAF was rebased using the October 1, 1997, level of 173.2 in accordance with the requirements of the Staggers Rail Act of 1980 (10/1/97 = 1.00).

[4] The third quarter 2003 forecast error adjustment was calculated as follows: a. First quarter 2003 RCAF calculated using forecasted data equals 99.2; b. First quarter 2003 RCAF calculated using actual data equals 100.6; c. The difference equals the forecast error (b-a) of 1.4 Because the actual first quarter value is greater than the forecast, the difference is added to the preliminary RCAF.

[5] The third quarter 2003 RCAF Adjusted (0.519) is calculated by dividing the third quarter 2003 RCAF Unadjusted (1.020) by the third quarter productivity adjustment factor of 1.9649. The third quarter 2003 productivity adjustment factor is calculated by multiplying the second quarter 2003 productivity adjustment factor of 1.9557 by the fourth root (1.0047) of the 1997-2001 annual average productivity growth rate of 1.019%.

[6] The third quarter 2003 RCAF-5 (0.497) is calculated by dividing the third quarter 2003 RCAF Unadjusted (1.020) by the third quarter productivity adjustment factor-5 (PAF-5) of 2.0542. The third quarter 2003 productivity adjustment factor is calculated by multiplying the second quarter 2003 PAF-5 of 2.0333 by the fourth root (1.0103) of the 1996-2000 annual average productivity growth rate of 1.042%.

APPENDIX

TABLE B

Ex Parte No. 290 (Sub-No. 5) (2002-3)
Comparison of First Quarter 2003 Index
Calculated on Both a Forecasted and an Actual Basis

Line No.	INDEX COMPONENT	2001 WEIGHT	FIRST QUARTER 2003 FORECAST	FIRST QUARTER 2003 ACTUAL
1	LABOR	37.8%	269.7	269.7
2	FUEL	10.5%	100.7	113.8
3	MATERIALS AND SUPPLIES	4.6%	144.2	144.2
4	EQUIPMENT RENTS	10.5%	175.2	177.0
5	DEPRECIATION	10.6%	149.6	149.7
6	INTEREST	3.8%	98.6	98.6
7	OTHER ITEMS	22.2%	162.2	162.3
8	WEIGHTED AVERAGE	100.0%	193.2	194.8
9	LINKED INDEX		190.6	193.3
10	RAIL COST ADJUSTMENT FACTOR		99.2	100.6